



January 1, 2010

Dear Hoosier Customers:

Five years have passed since Governor Daniels took office and he is now well into his second term as Indiana's 49th Governor. It has also been five years since he created the Indiana Finance Authority (IFA) to more effectively manage state-related finances under one entity. In a year full of economic uncertainty at every level, 2009 will be remembered in the municipal bond market as a year of historically low interest rates. As a result, the IFA was able to further strengthen its portfolio by refinancing existing debt at lower costs, locking in low, fixed rates for new issuances, and repositioning outstanding variable rate debt. In early 2009, the IFA refunded \$65 million of correctional facilities' bonds and realized net present value savings in excess of \$5 million. Later in the year, the IFA issued \$138.9 million in bonds for the State Revolving Fund (SRF) Loan Program to provide low-cost loans to local communities for the improvement of drinking water and wastewater systems.

The IFA was able to take advantage of the American Recovery and Reinvestment Act of 2009 (the Recovery Act), signed into law on February 17, 2009, creating Build America Bonds (BABs), among other opportunities. As a result of the Recovery Act, the IFA was able to complete the financing of the Indiana Convention Center expansion project at lower interest costs than originally expected. In June 2009, the IFA issued \$191 million in direct-pay, fixed-rate BABs and \$17 million of traditional fixed-rate tax-exempt bonds to finance the final stages of the project, which is expected to be completed in January 2011. The issuance of BABs instead of tax-exempt bonds will lower the interest cost an average of \$2 million each year through 2039. In addition, the IFA was able to negotiate liquidity agreements with four highly-rated banks in September 2009 thus lowering variable rate interest costs and volatility on the Stadium and Convention Center debt going forward.

The IFA's Tax-Exempt Conduit Bond Program and Volume Cap Program issued \$1.9 billion in tax-exempt bonds providing issuers an estimated savings of more than \$567 million, when compared to the cost of issuing taxable bonds. The applicants for these bonds included manufacturers, 501(c)(3) organizations, health care facilities, private institutions of higher education and certain other qualified entities. By issuing these tax-exempt conduit bonds, the applicants were able to acquire a lower interest rate than if they used traditional financing.

In addition to managing state-related finances, the IFA plays a significant role as a deal manager for many interagency initiatives. IFA is working to more efficiently manage interagency deals by and between state agencies by dedicating resources as needed in order

to keep costs associated with these deals to a minimum. With IFA's deal management experience, state agencies are benefiting from savings realized by working as a single force to increase efficiencies within the state. For example, the IFA, with the Indiana Department of Administration (IDOA), created a capital budget plan for the management of all state facility capital improvements, so that IDOA could more effectively plan for the future of the state's facilities. Other examples of these efforts include IFA's support of the Indiana Economic Development Corporation in creating attractive financing packages for business development, IFA Environmental Programs assistance to make improvements at some major state facilities, and advisory services to several state agencies to identify potential creative solutions to meet state needs without placing additional burdens on taxpayers.

In managing its two environmental financial programs, the IFA had a busy year benefiting from the implementation of the Recovery Act, which provided funding for wastewater and drinking water infrastructure projects and remediation projects. The State Revolving Fund (SRF) Loan Program financed a record-breaking 78 loans totaling more than \$438.6 million, \$92,999,608 of which was made available from the Recovery Act to borrowers through the SRF Loan Program as principal forgiveness, similar to a grant. Hoosiers will save more than \$260 million over the term of the loans. Additional savings will be realized as communities which received Recovery Act funding continue to close loans for their water infrastructure projects in early 2010. These projects will improve water quality and the overall health of more than 2.5 million Hoosiers.

Since the inception of the SRF Loan Program in 1993, the SRF Loan Program has provided more than \$2.69 billion in low-interest loans to Indiana communities for projects that improve wastewater and drinking water infrastructure. The SRF Loan Program has realized many successes in their programs since 1993, and continues to develop new programs and strategies to meet the growing needs of Indiana's aging infrastructure.

For the third year in a row, the U.S. Environmental Protection Agency (U.S. EPA) awarded the Indiana Brownfields Program (the Brownfields Program) competitive grant funding. The Recovery Act created increased opportunities to fund cleanups throughout the State. In August 2009, through the Recovery Act the U.S. EPA awarded \$2.5 million for cleanup of brownfield sites; \$900,000 for hazardous substances; and \$1.6 million for petroleum contamination. The Recovery Act award allowed the Brownfields Program to increase its capacity to issue no- to low-interest loans to finance site remediation through the Revolving Loan Fund (RLF) Incentive, which had been created in 2008 with an initial \$2 million award from the U.S. EPA. Of the total \$4.9 million available in RLF funding (traditional and stimulus funding combined), the Brownfields Program received loan applications that will commit \$2.1 million to address hazardous substances contamination and \$2.8 million to address petroleum contamination.

In July 2009 also through the Recovery Act, the U.S. EPA awarded the State of Indiana \$4,039,000 from the federal Leaking Underground Storage Tank (LUST) Trust Fund program that the Brownfields Program is administering on behalf of the Indiana Department of Environmental Management. By year end, Indiana had drawn down 14.1% of the LUST stimulus funding, 4 times more than any other state in U.S. EPA Region 5. Indiana led the Region 5 states in the amount of stimulus LUST funds expended, with Minnesota the next closest with only 2.8% of its award drawn down.

The Brownfields Program continued work under the Petroleum Remediation Grant (PRG) incentive, with a total approved budget of \$7.49 million, disbursing approximately \$5 million. Prior to the Indiana Finance Authority's assumption of management of the Brownfields Program in July 2005, only 14 sites statewide had been provided funding totaling just above \$1 million for remediation of petroleum contamination on brownfield sites. As a result of continued efforts and success with the PRG incentive, funding has been obligated for 87 sites of the 99 that have been approved for funding. Of the 76 active sites, 33 sites (43 percent) have been closed with No Further Action letters.

2009 brought the realization of the true effectiveness of the consolidation of the two IFA Environmental Programs. This was accomplished through a joint effort to close loans using SRF Loan Program funds to address non-point source pollution emanating from brownfield sites. This created a unique financing mechanism to address water quality impacts caused by contaminated brownfield sites. The IFA Environmental Programs also began structuring the first loan for a brownfield redevelopment project to be mix-funded with both brownfield RLF and SRF Loan Program funds.

On the administrative side of the IFA, the annual audit of its programs and finances resulted in an unqualified opinion with no audit findings, adjustments or management letter. Such a clean audit is noteworthy because of the addition of the Recovery Act funding and reporting requirements in addition to the already existing complexity that results from the required analysis of multiple state programs that fall under the IFA umbrella.

Governor Daniels aims to improve the overall health of Hoosiers, stimulate Indiana's economy by providing opportunities for job growth, and provide necessary funding for Indiana's infrastructure, and the IFA strives to play a significant and positive role in implementing programs to achieve these goals. The IFA is proud of its efforts and the impact it was able to achieve when faced with so many challenges this past year. The IFA will continue efforts to best serve Hoosiers in the coming year. Thank you for your continued interest in the Indiana Finance Authority.

Best Regards,



Jennifer M. Alvey
Public Finance Director
of the State of Indiana